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Finansovaya i kreditnaya sistema SSSR (Chapter IV),
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THE STATE BANK OF THE USSR

V. M. Batyrev
V. K. Sitnin

The analysis of the credit function during the transition period from capitalism to socialism is one of the essential parts of the Marxist-Leninist theory of the socialist revolution.

Analyzing the material and organizational prerequisites of socialism emerging in the course of growth of the capitalist society, Marx points out the role of banks in the creation of a form of bookkeeping for a society, and he also notes the colossal power of central banks over industry and commerce.

Capitalist credit realizes, on a gigantic scale, the collectivization of production on the basis of private ownership, subordinating the productive powers of a society to a few exploiters and the social wealth to the owners of capital.

On the strength of such concentration, the credit system, said Marx, will serve as a powerful lever for the transition to socialism; it will become one of the elements of this great transformation along with the basic changes in the very methods of production.

V. I. Lenin, on the basis of his analysis of the new role of banks in the epoch of imperialism, developed and gave concrete meaning to the teachings of Marx concerning the role of banks in the socialist revolution and in the construction of socialist society. "Without large-scale banking, socialism would be unrealizable," he said. It is necessary "to take this excellent apparatus given birth to in capitalism, and remake it on an even larger scale, even more democratic, even more universal. Differences in quantity will become differences in quality. A single state bank on the largest scale, with branches in every village and in every factory, is already nine tenths a socialist mechanism. It would constitute all-state bookkeeping, all-state accounting of the manufacture and distribution of goods. It would be, so to speak, something in the nature of a framework for the socialist society."

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In his "Theses on Banking Policies" written in March and April 1918, Lenin particularized the problem of the "transformation of banks into a unified apparatus for accounting and regulating the socialistically organized life of the whole nation."

In particular, this problem included the custody by the bank of all the money of the people except that needed for direct consumption, for establishment and development of free checking accounts, for preservation and strengthening of control over the issue of money from the bank, and for creation of a dispersed and appropriately arranged network of People's Banks throughout the whole country. The concentration of all monetary transactions in the bank would place powerful supplementary sources of funds for support of the nationalized enterprises into the hands of the socialist state, place the yet surviving capitalistic enterprises under control and in subordination to state regulation and make it possible to regulate the growth of the cooperative small-scale commodity economy and to direct the economic life of the country in the interests of socialism.

Lenin's observation on the full use of the banking apparatus for the accounting and control of production and distribution is realized in the Soviet credit system.

The possibilities for such employment of the banking system are dependent upon the concentration in the bank and the flow through the bank of the monetary transactions of socialist enterprises and organizations.

For handling monetary transactions of enterprises and organizations through the banking system, the state uses credit transactions between the bank and enterprises. In a capitalist economy, the separation of capital ownership from the functioning of capital proceeds on a credit basis. This facilitates the migration of capital from one branch of the economy to another and speeds up the turnover of goods. In the Soviet economy, the credit form in state enterprise relations results not from the relations of ownership, but from the organization of the economy on the principle of cost accounting.

The employment of money capital, temporarily liberated in the turnover of enterprises, for all-state requirements is permissible under the condition that this capital be readily available to the enterprises for the fulfillment of their production plans, i.e., on a credit basis. It is on this basis that the functions of the State Bank of the USSR develop -- as the accounting and cash center of the Soviet economy and as the sole source of short-term credit for production and distribution activities.

Enterprises and economic organizations, administrative organs, various elements of the financial system, and public and cooperative organizations are all obliged by law to hold their free funds in current accounts and in clearing accounts in the State Bank. The balances in these accounts in the bank constitute the obligations of the bank to an enterprise (the owner of the account) for payment to the enterprise or, on its order, for payment of expenses associated with the performance of its functions.

Payments between enterprises and organizations are handled by a transfer of funds from the account of one to the other. The turnover in just the clearing accounts of economic organizations had in 1938 already amounted to 682 billion rubles.

Enterprises and organizations are obliged to turn over to the State Bank any money which they receive. These deposits are credited to the accounts of the depositing organization. On the other hand, enterprises receive cash for payments to employees and laborers from funds of the bank. These payments are deducted from their current or clearing accounts. Thus, the turnover in the accounts in the bank reflects (1) payments among economic organizations attendant to the flow of products; (2) the formation of accumulations and the disposition of these through the state budget and within the branches of the economy; and (3) the payment of wages to workers and employees and the disposition of these incomes in payment for goods and services. The very possibilities for the transformation of the State Bank into a central accountant for the socialist society are indeed created by this arrangement.

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Handling the payments between enterprises, the State Bank controls these payments, and organizes the accounts appropriately.

A resolution of the Council of People's Commissars of 14 January 1931 established the following forms of accounts: acceptance accounts (aktsept), the predominant form; accredited accounts (akkreditiv); and the special accounts (osobyi schët).

Accounts based on the principle of clearing (balancing of mutual obligations) and various types of special accounts combining basic types in accordance with special requirements of various branches of the economy receive wide, though still insufficient, employment in the operation of the State Bank.

A sound system of accounts should guarantee a possibly more complete and immediate payment from purchasers receiving goods from suppliers. Control by purchasers over the fulfillment of contracts by suppliers is also an important element in the sound organization of accounts. The system of accounts must be simple; transactions must proceed rapidly, not requiring an extended immobilization of important quantities of capital. These problems are solved variously in the different active forms of accounts.

Acceptance accounts encompass the great body of payments of economic organizations for goods and services, and by 1938 had already attained a total sum of 229 billion rubles. These accounts are handled as follows: the supplier, despatching goods to a purchaser, simultaneously sends him a bill of exchange through the State Bank. The purchaser, if he discovers a discrepancy between the bill of exchange and the contract agreement, may refuse to pay for the goods ("decline acceptance"); in this case the supplier then must divert the goods to some other buyer. If however, acceptance is not declined in an established period of time, the bank transfers the amount of the payment from the clearing account of the purchaser to the account of the supplier.

At the date of payment by the buyer, the funds in the clearing account may be found insufficient. In this case, the bills are held in the bank and are met from the succeeding deposits of the purchaser. If several unpaid demands are presented against an enterprise, payment is made by the bank from succeeding deposits in order of priority. However, wage payments enjoy first right of payment, then the periodical payments to the People's Commissariat of Finance and the State Bank, and only then the payments to suppliers. The acceptance form of accounts guarantees control by the purchaser over contract fulfillment by the supplier and control by the State Bank over the employment of payments in the order of their economic importance and priority, i.e., of those funds in the account of an enterprise or which are deposited in this account.

The accredited form of accounts is handled as follows: the amount of the payment is transferred by the purchaser into the department of the bank serving the supplier before the shipment of goods is made. After shipment this amount is entered in the account of the supplier. In this scheme the payment of the buyer to the seller is unconditionally guaranteed. However, this form of account cannot receive wide use, since it limits the buyer's freedom of action. The volume of such transactions in 1938 was about 12 billion rubles. Actually this scheme is used only in special circumstances: in a supply situation which requires timely payment, and also upon the demand of the suppliers in transactions with unreliable debtors.

Special accounts are devised on a principle similar to that of the accredited account. The only difference is that funds in a special account may be employed for payments to several suppliers in one locality.

It is a feature of all of the forms of accounts that the State Bank is drawn into the function of not only time control over the payment of a bill of exchange but also, in large measure, over the nature of the transaction lying behind the payment. It is contrary to the principles of financial organization of economic organs, and therefore prohibited by law, for one enterprise to give funds or goods to another on credit. The bank handling the accounts should ascertain whether a business transaction lies at the basis of a payment, whether this transaction is appropriate to the operations of the

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enterprises, and in particular, whether or not some illegal form of advance payment is involved, drawn from funds for capital construction (which are not paid from the clearing accounts) or from some other source, etc.

Therefore, bills of exchange do not possess the abstract, irresponsible character inherent in the checks of promissory notes in capitalist practice, but rather are directly tied in with definite transactions in goods and bear witness to the actual transfer of goods from the supplier to the purchaser.

Accounts not controlled by the bank and handled with "abstract documents" (checks for local payments, drafts, etc.) have only a comparatively minor place in internal payments handled through the bank.

Clearing accounting, based on cancellation of mutual obligations of economic organization, occupies an especially important place in the accounting system. The most developed form of such clearing in our practice takes place through the Bureaus of Mutual Accounting (BVR). Such bureaus are usually organized at the branch level, but also embrace certain enterprises of other branches in cases involving mutual supply, or where products in course of manufacture successively pass through a series of enterprises. For example, assume that in the textile industry, cotton of one million rubles' value enters a spinning mill from the supply organization; yarn goes to the weaving mill, whereupon its value is now 1.5 million rubles; the finishing mill pays the weaving mill 2 million rubles for its share of the processing; and the marketing organizations pay 2.5 million rubles to the finishing mill. In place of a turnover between these enterprises of 7 million rubles, by means of cancellation of payments, the following takes place (in rubles):

Finishing mill receives the following payment after deduction of what it owes the weaving mill, i.e., 2.5 million minus 2 million	500,000
Weaving mill -- after deduction of debt to the spinning mill, i.e., 2 million minus 1.5 million	500,000
Spinning mill -- after deduction of debt to supplier, i.e., 1.5 million minus 1 million	500,000
Marketer pays the cost of the cotton to the supplier	1,000,000
Total payments amount to:	2,500,000

Accounting in this case is handled not only without using cash, but also in large measure without the transfer of funds from one account to another in the State Bank, simply by balancing mutual obligations within a definite circle of enterprises. This speeds up and reduces the cost of accounting and also liberates considerable monetary resources from the sphere of payment turnover.

Schemes for the formation of working capital for economic organizations, for banking credit, and for the organization of accounting are all constructed on a single principle. This principle states that working capital must be given to enterprises and economic organizations only within the limits set by the plan, and extra-plan expenditures of these means in the process of transfer of goods between enterprises should not be permitted.

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Such a financial arrangement compels the economic organizations to fulfill the tasks of the plan for production costs and rate of turnover of materials. Fulfillment of these tasks is necessary so that the enterprises will have sufficient capital for normal production activities. But such a system also implies the following difficulty: a breakdown in planned operations leads to financial difficulties, and these are first manifested in the inability to pay off obligations to suppliers within the required time period. An enterprise not paying for the goods supplied to it is in effect drawing upon the resources of its suppliers for its own turnover, in spite of the plan. As a result, the suppliers in turn experience financial difficulties and will be unable to meet their own obligations.

Such mutual indebtedness breaks down both the cost-accountability system and finance-planning discipline. Under conditions extant in our country, suppliers are often not actually able to take advantage of the rights given them to shut off shipments to enterprises which violate payment discipline. Accounting practice does not yet make it possible to prevent shifting the burden of financial failure of individual enterprises onto the whole range of enterprises and organizations associated with them. Also lacking is sufficient motivation compelling enterprises and the main administrations and commissariats directing them to search out internal resources and rapidly liquidate the reasons for financial difficulties which lead to a stoppage of payments. Although failures to make payment are insignificant in comparison to total turnover in our economy, they still disorganize the cost-accounting mechanism for the regulation of the volume of working capital in individual parts of the economy. The further improvement of the accounting system and in particular a more active role of bank credit and the action of main administrations and commissariats to localize payment failures can appreciably raise utility of working capital in operating organizations and also yield marked results in speeding up the turnover and improving the utilization of material and monetary resources.

The chief function of the State Bank, in the fulfillment of which banking control over production and exchange is realized, is the extension of credit to enterprises and economic organizations. The loan of capital by the State Bank to enterprises and organizations, to be returned at a specified time, in itself creates the basis for control by the ruble over production and exchange. The turnover of money capital is an essential part of the total turnover of every enterprise. Money capital advanced by the bank into the operations of an enterprise can be returned to the bank without disruption of the normal production activities of an enterprise only to the degree of completion of the cycle of production and exchange and of retransformation of the advanced capital from a commodity form into a money form. Definite time limits for the return of loans, established by the bank in accordance with the planned periods of capital turnover in specified stages of production and exchange, are a factor of control over the observation of these turnover periods.

The need for control by the ruble is the guiding factor in the establishment of concrete regulations for the extension of credit. Therefore, these forms of credit are devised fundamentally in accordance with the special characteristics of capital turnover in different fields of economic activity.

Capital necessary for production and exchange of goods is partially advanced to enterprises as credit, and is added to the working capital already held by the enterprises. More than 40 percent of the working capital of the basic branches of the national economy consists of bank credit. Bank credit is issued for purposes strictly separated from the uses to which an enterprise's own working capital is put. Only the State Bank possesses the right to issue credit to enterprises.

This credit system was devised in 1930 and 1931 as a result of the introduction of a credit reform which organized the issuance of credit in the economy in conformity with the development of the socialist economy and the degree of material and financial planning in economic organizations which had been attained by that time.

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In the reconstruction period, the state was already planning the basic outlines of a transition to cost accounting for enterprises. Industrialization, which demanded the mobilization of all internal resources of our economy, required the development of new, higher levels in both material and financial planning.

In the industrialization period, the financial plans of branches of the economy were already allowing for the requirements of various enterprises for financial resources and had designated the sources of these funds, while the state budget was the basic machine for mobilizing the accumulations of the economy and distributing them in accordance with the needs of socialist reconstruction. Concurrently, however, the planning and financing of working capital for enterprises and the extension of credit in the economy have fallen behind the degree of planning attained. During the period of industrialization, a system of commercial credit developed alongside the system of planned distribution of working capital to enterprises in accordance with their production plans. The economic organizations exchanged goods and services on a credit basis. This led to an unplanned redistribution of working capital. Methods in use at that time for planning the release of goods on credit could not arrest this capital redistribution. A large part of the banking credit loans in the form of a discount of notes was issued to enterprises for the replenishment of capital which they themselves had given to their customers by surrendering goods on credit. The banks, therefore, were not directly associated with the enterprises actually using the loaned capital, and thus were unable to effectively implement control by the ruble over production and exchange. In the working capital of the enterprises, there was no clear distinction between owned and borrowed capital; the volume of capital tied up in an enterprise depended not only on the results of its production activities, but also on its commercial transactions with purchasers and suppliers and upon the state of its accounts, the latter often being determined by the market situation for goods. The interest of the enterprise in the results of its manufacturing activities, in lowering production costs, and in speeding up the turnover of capital was weakened in the same way.

In 1930 and 1931, as a result of a series of government decrees, a system for extension of credit was established.

The issuance of commercial credit was prohibited and was replaced by direct bank credit. Basic forms of accounting based on principles of rapid payment for goods by purchasers, of handling payments through the bank, and of control by the bank over payments were established. Enterprises were allotted their own working capital within the limits of normal balances of goods. "Objects" of banking credit were specified, and the bank began to extend credit directly for the processes of production and exchange, and by means of the time periods established was able to influence the rate of production and exchange of the goods for which the credit was extended. Finally, measures concentrating all short-term credit functions into the State Bank were carried to completion.

The State Bank is at present a centrally directed but, nevertheless, widely spread-out system, with more than 3,000 sections, directly associated with all state and cooperative enterprises and organizations through either credit or cash accounting activities.

Such decentralized organizational structure facilitates the planned manipulation of state resources and brings bank control by the ruble to every enterprise. By 1939, bank credit issued to the economy had grown to 45 billion rubles. In all, the capital turnover of the State Bank for 1938 amounted to 475 billion rubles.

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The balances of debts owed to the State Bank were distributed as follows, according to branches of the economy (in billions of rubles):

Heavy industry and machine building	4.8
Light industry	7.8
Food	9.2
Timber	1.1
Trade	11.8
Commissariats of agriculture and sovkhoses	1.7
Narkomzag and others	3

State Bank loans are issued to economic organizations for specific, concrete expenditures which are necessary for fulfillment of assignments but which are not part of those expenditure items for which the organization has been allotted its own working capital. In distinction from the capital which organizations receive through budget appropriations, bank credit is characterized by its short-term nature and the necessity for its return, and should be secured by definite material goods.

Bank credit is extended (1) to provide supplies of a seasonal nature and (2) to cover seasonal expenses of production.

The seasonal variation of expenses in production is caused first by the nature of agricultural work. Investments in the operations of sovkhoses gradually increase during field work and are returned in a money form during the sale of the product according to the amount of crop harvested. Processing of agricultural raw materials in many cases also has a seasonal character because of the problem of preservation (e.g., the processing of sugar beets). Seasonal stores of produce consumed gradually through the year are formed in those branches in which processing is carried on throughout the year (e.g., in the cotton industry). Also, lumbering operations have a seasonal nature, as does the accumulation of reserves of raw materials or of finished products in the navigation season, etc.

In all these cases, enterprise requirements for working capital vary sharply throughout the year. Allocation of their own working capital to such enterprises in accordance with their peak requirements would cause immobilization of capital for the greater part of the year. Discrepancies in production costs and the formation of superfluous reserves would not show in the financial situation of an enterprise, and interest in the economical use of state capital would be destroyed. Therefore, immediately after the credit reform, it was decreed that seasonal requirements of enterprises were to be covered by bank credit.

Certain nonseasonal costs are the next items for which credit is issued, although they are partially covered by an organization's own capital. Thus, for example, costs in the merchandising sector are not, as a rule, reduced in the last or that period of the year. Nonetheless, to enhance state control over the rate of goods turnover, it was established that goods stores of merchandising organizations must be paid for through bank credit, to the extent of 70 percent of the value for state-produced commodities and to 85 percent for cooperative commodities. The balance of investment for trading organizations must be covered by their own capital.

Production in the majority of heavy industry branches is nonseasonal. These extremely important branches therefore remained almost completely outside bank control for a long time. Beginning in 1939, however, a series of loans partially covering production costs in heavy industry was gradually introduced, by means of which bank credit, in a definite ratio to an enterprise's own working capital, shared in the expenditures. These loans were extended for the planned period of capital turnover in the production processes financed.

The real significance of advancing capital on credit is that it imposes accounting onto the parties of a contract agreement.

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During the movement of goods from the manufacturer to consumers, the goods are withdrawn from the turnover of both the producer and the purchaser, and are not involved in production turnover. Such outlays of an enterprise's capital into the exchange process, and also outlays attendant to the immobilization of capital in transit are, as a rule, covered by loans of the State Bank.

In accordance with the basic form of accounts -- the acceptance form -- established during the credit reform, an enterprise dispatching goods may receive payment only after (1) the bills of exchange are received by the purchaser, (2) payment is arranged with the purchaser, and (3) documents for the total sum that was removed from his account are received in the section of the State Bank serving the supplier.

This procedure consumes 20, 30, or more days, for the duration of which the working capital of the enterprise is reduced. The bank therefore extends a loan to the enterprise for this period (called "loans on capital in transit").

In many cases, the State Bank, financing goods or reserves of raw materials and other stores, extends the loan directly to the supplier as payment. Credit for the formation of reserves is in this instance placed into the supplier's account, thus providing payment independent of possible accidental cash shortages on the payer's part.

Further, credit may be extended for various requirements unanticipated by the plan if the requirements are caused by production above the plan or by circumstances beyond control of the enterprise, e.g., irregularity of shipments by suppliers, transport difficulties, etc. In these cases the State Bank extends loans for the duration of the tie-up (called "loans on temporary requirements").

Finally, individual, special types of credit for production needs are handled by the bank, e.g., loans to industrial cooperative artels for the organization of commodity production, loans to kolkhozes to finance their activities, etc.

The scheme for the extension and repayment of loans is adapted to the nature of working capital required in the organizations. It is precisely due to this that the State Bank achieves control by the ruble over production and exchange of goods. Accordingly, for different types of loans, different systems of accreditation are established.

Loans for seasonal stores are extended in amounts sufficient for the actual formation of the given produce within the limits set by the plan.

On the basis of plans for the formation and utilization of seasonal stores, credit limits are established by the directorate of the State Bank and are communicated to those offices and sections of the bank that serve the financed enterprises. This limit specifies the maximum amount of credit and the repayment period for each enterprise, and separately for each credit purpose. Thus, for example, separate limits are set for a textile factory as regards raw cotton, fuel (if it is of a seasonal nature, like peat), etc. Credit limits are in this way based upon nonaverage requirements for definite types of materials and not upon the total financial position of the financed enterprise.

Within these limits, a section of the bank extends loans direct to a given enterprise specifically for the formation of reserves of the goods and for the duration of their planned turnover. Thus, for example, if the delivery of raw materials in the fourth quarter should amount to 6 million rubles (this material to be used up in the first quarter of the next year), but actually only 4 million rubles' worth of raw materials is received by September, then the State Bank issues a loan for 4 million rubles with the period of liquidation extending from January to March. It is possible that supplies so purchased will be used up faster than anticipated so that by December only 3 million rubles' worth remains. Thus, capital is liberated at the enterprise to the amount of one million rubles. The State Bank, having established that the collateral (the stock of raw materials) behind the loan is inadequate, claims one million rubles immediately, in this way withdrawing superfluous capital from the hands of the enterprise.

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The mere presence of collateral (in the form of materials) does not indicate that a loan must correspond to the amount of the collateral. However, specific economic processes, anticipated by the plan, must stand behind every loan issued. Thus, loans for stores of seasonal raw materials should cover that excess accumulation formed as a result of shipments in excess of current requirements for fulfillment of the production program.

If the excess reserves are formed because production is lagging behind plan, the bank does not automatically cover the financial deficit resulting. For extending credit on seasonal production, it is usual for the credit to be adapted to separate stages of the production process, on the basis of which control by the ruble is established over processing periods and cost of operations. Thus, credits to sovkhoses for expenditures in field work are conducted separately, according to the type of work envisaged, i.e., expenses in preparation for spring sowing, actual sowing, harvesting, etc. Credit is issued on each phase according to the actual volume of work and its planned cost, by means of which the bank qualitatively controls the execution of the operations. It is due to this that the bank is not obliged to cover payments in excess of the planned cost of production.

Credit for other seasonal production activities (e.g., lumbering) is handled in exactly the same way.

In many cases, a whole cycle of production processes and exchange is handled by bank credit. For example, the expenditures of sovkhoses for production of agricultural raw materials are covered by bank credit. During harvesting of the crop, the storage organization receives a loan from the bank for storing the produce, and this is used by the storage organization to settle its payments with the sovkhos. These payments are then used by the sovkhos to liquidate its debt. An enterprise processing the raw material is in turn given credit on the strength of its stores of seasonal materials, and the loans given to the storage organization are liquidated from these payments. Bank loans in this way move from one organization to another according to the amount of goods transferred in the production and exchange processes. In those branches of the light commodity and food industries that process agricultural raw materials, the rate of progress of products in successive processing operations through the various enterprises is under the constant control of the State Bank, to the extent that the necessity of liquidating loans in a definite period compels the enterprises to forward products to the buyer by the termination of the period.

The extension of credit for turnover to merchandising organizations is without limit. The amount of credit is determined by the volume of goods handled. At the same time, the bank realizes control over observation of the planned periods for the sale of goods and over the state of the trading organizations' own working capital, controlling the degree to which this working capital shares in the payment for goods.

Such a difference in the handling of credit for merchandising and for production reserves is set up primarily because of the great variations in the volume of goods turnover, whereas the scale of shipments of seasonal raw materials to industrial enterprises can be more or less fully anticipated by the plan, and serves as a basis for establishing credit limits. Credits are extended for actual amounts of goods shipped to purchasers without any sort of limitation (so-called "shipping credit"). Bills are submitted to the bank by the seller for presentation to the purchaser, the bank claiming payment from the purchaser and upon collection transferring the paid sums to the account of the supplier. Until the payment arrives, the section of the State Bank serving the supplier gives him a loan for the value of the shipment. The loan is given after receipt of the shipping documents and for a period comprising average postal delivery time to the buyer and back and a period for verification and payment of the bills of exchange by the buyer. The State Bank advances capital for all turnover payments within the socialized sector of the economy through this "shipping credit." The bank is thus integrated with all branches and enterprises and is able to control the shipment periods of finished products.

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The amount of credit which the bank may extend to the economy for a certain period of time (a quarter, a year, etc.) depends (1) on the growth of its resources and (2) on the total payments coming into the bank for that same period in liquidation of previously issued loans.

A rise in the total indebtedness of the economy to the bank demands a corresponding increase of bank resources and vice-versa.

Changes in the balance of indebtedness of various branches of the economy in various forms of loans and resources and the sources of these funds for the future period are shown in the credit plan of the State Bank, which is approved for each quarter by the Council of People's Commissars of the USSR. This plan is a concrete directive determining the course of State Bank operations.

As a rule, the credit plan expects an increase in the bank's resources and corresponding allocations of this capital increment in the credit operations of the bank.

As a result of the seasonal variation of an important part of the banking credits, loans of the State Bank to individual branches of the economy increase in one period and are reduced in another. Bank credit withdrawn from one branch of the economy is used for extension of credit to others. For example, during the grain harvest bank cash resources which are increased by repayments of the sovkhoses are used for extending credit to storage organizations.

Sometimes, indeed, the resources of the State Bank and the credit extended to the economy may be considered to have changed places. As a result of the liquidation of earlier loans surpassing the issue of new ones, a contraction of credit takes place which makes additional capital available to the bank. A reduction in deposits may accompany this influx of capital from credit operations, in consequence of partial utilization by economic organizations of their cash reserves.

"Attracted" capital occupies a fundamental position in the structure of the resources of the State Bank.

In Chapter I we showed that in the operations of every enterprise money funds which function as cash reserves providing for succeeding payments are constantly being liberated. Such liberation of funds into cash reserves occurs during distribution of accumulations through the financial system, in the turnover of kolkhozes, etc. These money receipts that all organizations have as a result of several economic and organizational reasons may not immediately be disbursed in payments.

Payments for raw materials and wages do not coincide with the receipt of funds; payments for equipment and construction materials may not correspond to the receipt of subsidies from the budget; finally, taxes channeled into the budget cannot be immediately allocated and distributed by budget procedures. Also, in view of the turnover of payment, amounting to hundreds and thousands of billions of rubles, important sums estimated at tens of billions of rubles are temporarily immobilized in the channels of payment.

In the Soviet economy, the full accumulation of these money resources is achieved by the State Bank.

Since payments within the socialized sector of the economy are handled by deducting sums from the account of one enterprise or organization and placing them in the account of another, and since enterprises are obliged to place cash profits in their accounts, the great body of money resources accruing from the turnover of enterprises and organizations is found in accounts in the State Bank.

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This money capital, the cash reserves of enterprises, circulates in the turnover of payments, moving from the account of one enterprise to that of another. The rate of turnover of capital in acceptance accounts averaged 4 days before the war. The funds of each individual enterprise constantly vary. In contrast, the total capital in current and acceptance accounts is remarkably stable. It is due to this stability that the State Bank is enabled to make short-term loans to enterprises and organizations, while guaranteeing each depositor the use of his account for his own payments.

The realization of payments within the socialized sector of the economy, through transfers in the accounts in the bank, permits maximum accumulation by the bank of money resources liberated in the economy. On the other hand, the conditions of nonmonetary turnover introduce a series of delays in the process of this accumulation, which are extremely important in credit planning and which increase the importance of the credit plan in national economic and financial planning.

Indeed, under the conditions of money turnover, loans and payments from deposits could be made by the bank only from cash funds already in the bank and from the liquidation of previously issued loans, or from the money placed in circulation by the bank. The growth of the amount of credit (the growth of assets) obviously would depend on the attraction of additional bank deposits and on the volume of bank notes issued.

The tasks of the State Bank in regulating credit in such a situation would be (1) to search out and realize every possibility of most completely drawing the money resources of the economy into the hands of the bank and (2) to rationally distribute those resources that do come in. With nonmonetary turnover, however, this dependence is reduced, while the problems of credit planning are complicated. For payments between enterprises and organizations, the deduction of a sum from the account of one organization for payment to that of another signifies that the obligation of the bank to one account is carried over by bank entries to the other. The bank entry showing the transfer of bank debts from one enterprise to another, effects payments between enterprises and organizations and therefore serves as the means of payment in the accounting between enterprises and organizations.

Speaking of the replacement of money payments by bank accounting, Marx noted that "this simple method of exchanging money can replace real money exchange only if debt demands are equalized."

In the Soviet economy all enterprises and organizations hold their capital in accounts in the State Bank and take care of their reciprocal payments by obligations of the bank. Under the conditions of socialistic ownership of the means of production and a noncrisis course of economic development, lack of confidence in the State Bank cannot arise, and state enterprises cannot demand payment in cash rather than by bank transfers. The substitution in our economy of bank transactions for cash money in circulation (within the limits of the turnover between state and cooperative organizations) is complete and stable.

However, this replacement means that obligations of the bank entered in the account of the credited organizations also serve as a means for extending new bank loans. Technically, the extension of loans by the bank does not depend on the amount of the funds of the economy accumulated by the bank.

When making a loan, the bank enters the total of the loan in the drawing account of the client, thereby increasing its (the bank's) liabilities and also increasing the volume of transfer capital in circulation in nonmonetary turnover by means of transfers between accounts.

However, money in circulation cannot be replaced completely by bank transactions in our economy. A very important sector of payment transactions between the socialized segment of the economy and the population requires cash.

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Therefore, transfer capital must partially, from time to time, take a cash form, e.g., for payment of wages from the credit accounts. After this cash is returned to the bank by the population, which spends its wages for various goods through the merchandising organizations and the return of money from circulation, cash again reverts to the channels of nonmonetary turnover in the form of transfers in the transfer accounts of merchandising organizations. That additional transfer capital which the State Bank creates as a result of expanding its credit also enters the flow of cash turnover. If, in the course of cash turnover of the State Bank, the amount of circulating money is increased, we speak of an additional issue of currency in circulation.

Thus, the volume of credit which is extended the liberation of money reserves of the economy, and the issue of currency by the bank all intimately interrelated. But this tie-up takes place only through a series of mediating links.

We shall examine a concrete example of the way this connection is realized in banking practice.

Enterprise A, receiving a loan in the State Bank, obtains supplementary working capital; the corresponding sum of transfer capital is placed in its account (in the form of an obligation of the bank). When the enterprise pays for incoming raw materials out of this loan, the money given to it by the bank is transformed from a money loan into goods. The enterprise has introduced additional material goods into its operations by use of its credit. Simultaneously, a corresponding sum is placed in the account of the supplier of the raw materials (enterprise B) from the additional transfer capital which had been created by the bank. For the supplier (B) this addition does not represent money resources, but is only an equivalent for the product sold. Its disbursement is specified by the price structure and the cost price of the product. Accordingly, this additional transfer capital is distributed to a whole group of paying and current accounts: part goes to the suppliers of B, part goes into the budget as turnover and profit taxes, part will be employed for the payment of wages in a cash form, which, after being paid out by workers and employees for goods, again shows up in the channels of nonmonetary turnover, i.e., in the paying accounts of merchandising organizations.

A growing turnover of payment among Socialist enterprises and organizations demands, as a rule, a growth in the volume of money capital circulating in the domain of noncash accounting.

This requirement for transfer capital is directly connected with the amount of working capital of an enterprise liberated in a money form, with the total money accumulations circulating in the financial system, etc. This requirement is satisfied by the bank's creating an additional transfer capital when it gives new credits to the economy (i.e., above the previous loans liquidated in this same period. If the bank increases the credit by precisely the same amount as the demand for transfer capital, then the additional transfer capital is absorbed into the new cash turnover. As a result of a whole network of payments, this capital is distributed among a group of enterprises, budgetary organizations, the account of the State Budget, etc., in accordance with the quantities of money capital liberated in the turnover of these organizations.

The bank, however, is technically able, by issuing credit, to advance larger sums of transfer capital to noncash transactions than is necessary for taking care of the circulation of goods and of the transfer of funds within the socialized sector of the economy. In this segment the transfer capital created by the bank is not required by enterprises and organizations for the formation of money reserves or for noncash transactions, but will be used by them for cash payments, thus leading to an increase of the amount of money in circulation.

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An especially important role of the planned regulation of credit by the credit plan of the State Bank is that regulation must beforehand take account of the demand for noncash transfers and also of the demand for cash in circulation; further, it must establish beforehand the amount of credit to be issued within the limits of the above demands. The technically possible issue of credit beyond these limits would entail putting into circulation money which is not needed in the turnover.

The dependence of the issuance of credit by the bank on the volume of its resources is not an automatic, mechanical limitation, but results from the necessity of taking account of economic laws of circulation and subordinating credit activities to these laws.

It is not difficult to see that the system of bank distribution of monetary resources is fundamentally integrated with distribution conducted by the state budget, as a result of which the banking system is an organic part of the USSR financial system.

However, distribution through the credit mechanism has its own specific peculiarities, in consequence of which the State Bank is, functionally and organizationally, an independent part of the financial system.

In an over-all picture, the state, using credit and budgetary methods, distributes financial resources within the economy so as to secure a corresponding distribution of material and human resources and simultaneously to realize control over the utilization of funds.

The budget distributes money capital which has already appeared in the form of money accumulations and money income of the people. The State Bank, however, issuing credit to the economy, creates transfer capital which is necessary in the economy.

The banking mechanism, supplementing the work of the budget, guarantees the possibility of a more complete attraction of the resources of the national economy into the channels of planned state distribution.

The volume of bank credit extended to the economy does not depend only on that level which appears expedient from the points of view of cost-accounting and financial control of enterprise-owned and loaned capital making up the working capital of economic organizations. The volume of credit is also limited by the size of the State Bank's resources. These resources, from which the bank issues loans, are for the most part essentially different from the remaining resources of the financial system.

State Bank resources are made up of the following:

1. The State Bank's own capital, made up of appropriations from the state, from profits accumulated by the bank, and other special sources.
2. "Attracted" capital, i.e., capital of enterprises and organizations which is temporarily at the disposal of the bank. This capital comes from the balances in the acceptance accounts of economic organizations, from the capital of kolkhozes and of budgetary and communal organizations which is deposited in current accounts, from cash reserves of the budget, and from the capital of the economy in accounts formed by the passage of the great body of payments in the economy through the bank.
3. Money issues, i.e., cash being put into circulation. The State Bank is the cash center of the economy and therefore increases the amount of money in circulation, in accordance with transfer requirements.

The "attracted" resources, the State Bank's own capital, and money placed in circulation are for the most part allotted as credit to the economy and reflected in the bank's balance. The resources of the bank show up in the liabilities of the balance, while the capital distributed in loans appears in the assets (cash and other valuables are also included in the bank assets).

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